



WEEKLY ECONOMIC DIGEST

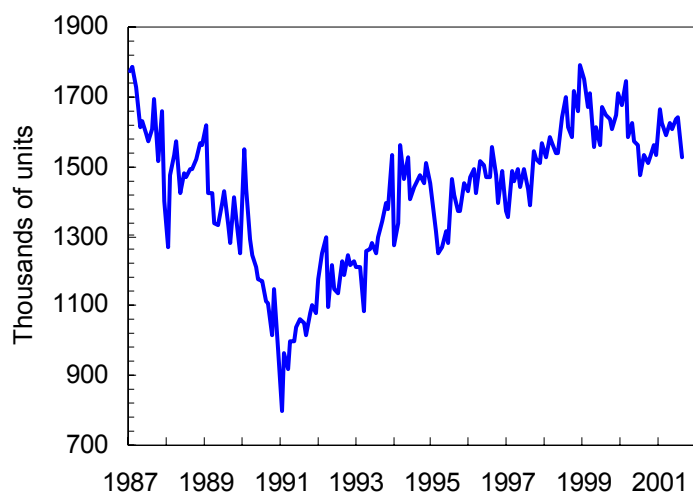


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – VICE CHAIRMAN

September 25, 2001

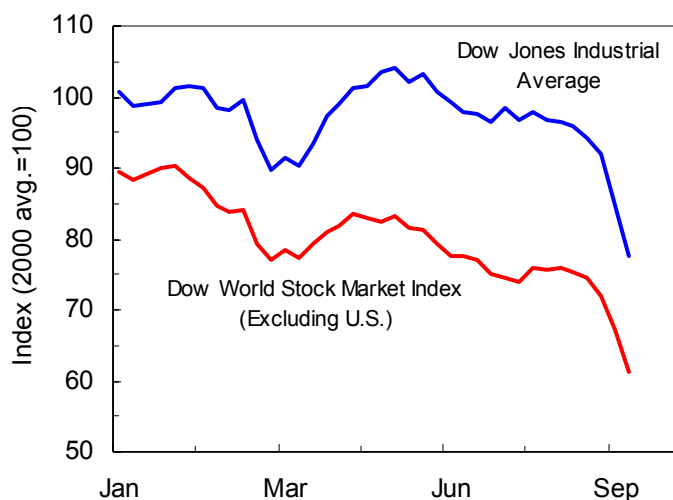
More Evidence of the Underlying Weakness, No Clear Signs on the Aftermath

New Private Housing Units Started
(Monthly data through August, 2001)



Source: Census Bureau, U.S. Department of Commerce.

Indexes of Equity Prices in 2001
(Weekly close through September 21)



Source: Wall Street Journal.

- **U.S. international trade weakened in July.** Although the U.S. trade deficit narrowed to \$28.8 billion in July and is now substantially smaller than it was at the start of the year, that decline reflected weaker economic conditions here and abroad. Imports fell for the fourth consecutive month, pointing to weakness in the U.S. economy. Exports of goods and services fell 2.5 percent in July—7.2 percent below the February peak—as overseas economies have weakened further.
- **Housing starts fell in August.** The number of new privately owned housing units started dropped by 114,000 units below their levels in July. Although mortgage rates have remained below last year's levels, starts are now slipping below their pace a year ago, perhaps reflecting homebuilders' expectations of a slowing in housing investment. The decline in starts is worrisome because the housing sector has been a relatively robust contributor to overall growth during the economic slowdown. Nevertheless, even with the August decline, housing activity remains high by historic standards.
- **Equity and bond markets reacted to heightened uncertainty.** Major stock indexes fell sharply last week—for example, the Dow-Jones Industrials Index slipped 15 percent. While those declines are significant, they parallel declines in world equity markets—the Dow-Jones World Index (excluding U.S. stocks) fell 14.9 percent since the end of the week prior to the attacks. Uncertainty also pervaded movements in bond prices. Short-term interest rates fell as a result of the Federal Reserve's cut in its target for the federal funds rate and additional liquidity infusions over the week. However, long-term rates declined by far less than did short-term rates (if at all), leaving the yield curve steeper at week's end than before September 11. Increased uncertainty concerning fiscal policy and the national debt contributed to the relatively high long-term rates.
- **The employment impact of the attacks remains uncertain.** Since September 11, airlines and aircraft makers have announced intentions to make more than 100,000 layoffs. Although those announcements highlight the particularly vulnerable condition of airlines, the effects of those layoffs, should they occur, on near-term unemployment are not clear. Some portion of those layoffs might be achieved through early retirements and attrition.

Economy At A Glance	Aug	Jul	Jun	May	2001 Qtr 2	2001 Qtr 1	2000 Qtr 4	2000 Qtr 3	2000	1999
Economic Activity										
Real GDP (% growth)*					0.2	1.3	1.9	1.3	4.1	4.1
Industrial Production (% growth)	-9.2	-1.2	-12.7	-3.5	-4.4	-6.8	-0.9	3.5	5.6	4.2
Capacity Utilization (Level, %)	76.2	76.9	77.1	78.0	77.8	79.2	81.3	82.4	82.1	81.2
Civilian Unemployment Rate (Level, %)	4.9	4.5	4.5	4.4	4.5	4.2	4.0	4.0	4.0	4.2
Housing Starts (Thousands)	1527	1641	1634	1610	1623	1627	1539	1505	1575	1647
Real Disposable Personal Income (% growth)*		23.8	1.7	0.2	2.4	2.7	4.2	2.7	3.5	2.5
Retail Sales (% growth)	4.0	2.0	-0.2	2.4	5.2	5.2	0.3	4.7	7.6	8.2
Personal Saving Rate (Level, %)*		2.5	1.0	1.1	1.1	1.1	1.0	0.8	1.0	2.4
Inflation & Productivity										
CPI-U Inflation, All Items (% growth)	1.2	-3.5	2.7	4.9	3.1	4.2	2.9	3.5	3.4	2.2
Core CPI-U Inflation (% growth)	2.4	2.4	3.9	1.3	2.6	3.2	2.4	2.5	2.4	2.1
Compensation per Hour (% growth)					4.1	4.5	3.6	3.6	4.4	3.5
Output per Hour (% growth)					2.1	0.0	2.4	1.4	3.0	2.3
Financial Markets										
T-Bill Rate, 3-month (Level, %)	3.4	3.5	3.5	3.6	3.7	4.8	6.0	6.0	5.8	4.6
T-Note Rate, 10-years (Level, %)	5.0	5.2	5.3	5.4	5.3	5.1	5.6	5.9	6.0	5.7
Federal Funds Rate (Level, %)	3.7	3.8	4.0	4.2	4.3	5.6	6.5	6.5	6.2	5.0
Dow Jones Industrial Avg(Index Level)	10315	10445	10767	11005	10669	10513	10586	10882	10735	10465
<p>Sources: Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; and, Haver Analytics.</p> <p>Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted annual rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.</p> <p>* Subject to revision this week.</p>										

Major Economic News Due This Week:

- **Conference Board Index of Consumer Confidence** [Release: Tuesday, September 25, 2001]
- **Manufacturers' Shipments, Orders, and Inventories of Durable Goods, August Advance** [Release: Thursday, September 27, 2001]
- **University of Michigan Index of Consumer Sentiment, September** [Release: Friday, September 28, 2001]
- **Personal Income, August** [Release: Monday, October 1, 2001]